

**DETROIT CASINOS AND THEIR
FISCAL IMPACT ON THE STATE**

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THE SENATE FISCAL AGENCY

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INTRODUCTION

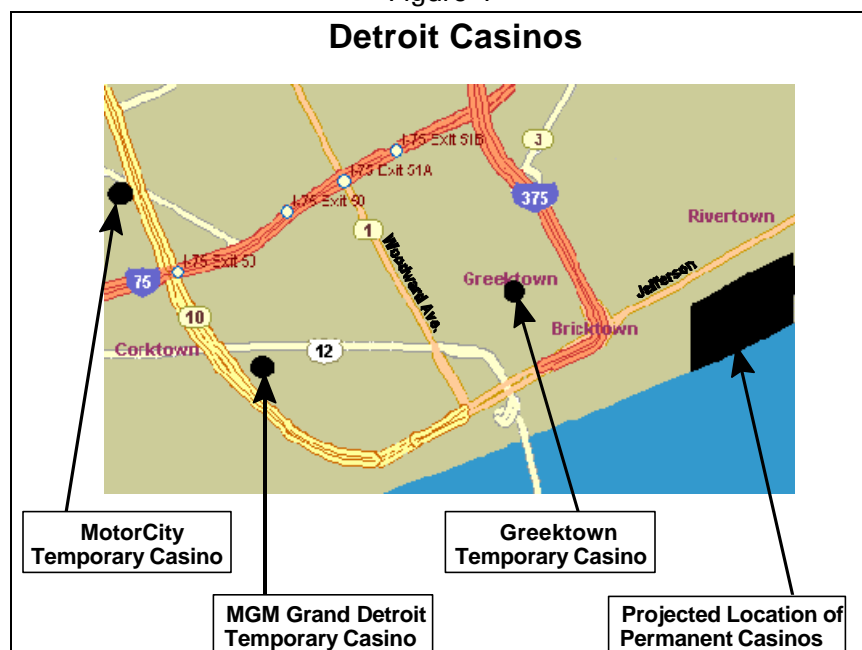
In November 1996, Michigan voters approved the Initiated Law of 1996 (Proposal E), the Michigan Gaming Control and Revenue Act (MGCRA), which permits three casinos to operate in the City of Detroit. Prior to the passage of MGCRA, the State prohibited casino-type gambling, except as allowed on Indian reservation land. Subsequent to its passage, the State Legislature enacted Public Act (PA) 69 of 1997 which modified and expanded MGCRA. The MGCRA, as well as other casino legislation, provides for State licensing and regulation, development agreements with the City of Detroit, and casino taxes, fees, and assessments. This article reviews the temporary Detroit casinos, the plans for the permanent Detroit casinos, and an estimated fiscal impact of the Detroit casinos.

TEMPORARY DETROIT CASINOS

Under the MGCRA, to be eligible for a casino license applicants had to enter into a development rights agreement with the City of Detroit. The development rights agreements allowed a casino developer, at its option and subject to the approval of the City's Mayor and the City Council, to construct and operate a temporary casino.

The first temporary casino to open was the MGM Grand Detroit Casino on July 29, 1999; it is owned by MGM Grand Detroit, LLC. The MotorCity Casino, owned by Detroit Entertainment, LLC, opened December 14, 1999. The third and final temporary casino, the Greektown Casino, owned by Greektown Casino, LLC, opened November 10, 2000. [Figure 1](#) shows a Detroit-area map with the locations of the three temporary casinos. In total, the cost for developers to build or renovate buildings to house the three temporary casinos were estimated to be \$520 million. The gaming space in each of the temporary casinos is limited to a maximum of 75,000 square feet. The MGM Grand Detroit Casino has three restaurants and 3,300 parking spaces available, while the MotorCity Casino has four restaurants and 3,000 parking spaces. The Greektown Casino has only one restaurant and 1,100 parking spaces; however, it is located adjacent to existing shops, restaurants, and hotel accommodations.

Figure 1



DEVELOPMENT AGREEMENTS

Development agreements are contracts between the City of Detroit and each of the three casinos, as required by the MGCRA. They include such items as the authorization for temporary casinos to operate, the location of the temporary and permanent casinos, the temporary and permanent casino amenities, design details, and grants and monetary contributions to the City of Detroit. In addition, the development agreements stipulate that the developers must comply with human rights guidelines similar to those for publicly funded construction projects. According to the development agreements, the developers must purchase at least 30% of goods and services from "Detroit-based businesses, Detroit-resident businesses, small business concerns, minority business concerns, or women-owned businesses". The developers also must comply with the Mayor's Executive Order No. 22 for allocating worker hours: 50% Detroit residents, 25% minorities, and 5% females. It is estimated that each temporary casino will employ approximately 2,500 people. Under the development agreements, gaming operations in a temporary casino must cease no later than four years after the date of opening. On November 30, 2000, the Detroit City Council amended the development agreements to extend the deadline for the City to secure the land for the permanent casinos by one year.

PERMANENT DETROIT CASINOS

The permanent casinos are proposed to be built on the Detroit riverfront, located in close proximity to each other ([Figure 1](#)). The City of Detroit is in the process of acquiring riverfront land to develop the permanent casinos. Construction has not started for the permanent casinos, but is expected to take two to three years to complete. Combined, the three casinos are expected to invest \$1.8 billion and to employ approximately 10,500 people in the permanent facilities. The Gaming Control Board currently expects each of the three permanent casinos to have 100,000 square feet of gaming space, over 800 hotel rooms, at least eight restaurants, retail space, ballroom and convention space, and additional amenities.

ESTIMATED FISCAL IMPACT

The fiscal impact of the Detroit casinos depends on a variety of factors, including the size of the casinos (both square feet of gaming space and the number of slot machines and table games), the dates the casinos open, the degree to which the casinos are successful at generating gross gaming revenues from visitors, and the change induced in other State and local tax sources and revenues.

Pursuant to Section 12 of the MGCRA (MCL 432.212), Detroit casinos pay a wagering tax to the State equal to 8.1% of the adjusted gross receipts of the casinos (gross gaming receipts less winnings paid to wagerers). The wagering tax paid to the State is deposited into the State's School Aid Fund (SAF) for K-12 expenditures. The casinos also pay an excise tax to the City of Detroit equal to 9.9% of the casinos' adjusted gross receipts, pursuant to city ordinance and as permitted by the MGCRA. The excise tax paid to the City is used for patrol officers, public safety programs, capital improvements, economic development programs, youth development programs, quality of life programs, or taxpayer relief.

Table 1 depicts the final figures for FY 1998-99 and consensus revenue estimates¹ for fiscal year (FY) 1999-2000 and FY 2000-01, based on the temporary casinos. Also included is the Senate Fiscal Agency revenue estimate for FY 2003-04 by which the permanent Detroit casinos are assumed to be completed. In FY 1998-99, the State's wagering tax revenue was \$6.0 million. The State's wagering tax revenue is estimated to total \$50.0 million in FY 1999-2000 and \$72.0 million in FY 2000-01.

In FY 1998-99, the reduction in lottery participation due to the Detroit casinos was estimated to be minimal. Adjusting for an estimated reduction in lottery sales produces an estimated net increase to the School Aid Fund of \$39.0 million in FY 1999-2000 and \$61.7 million in FY 2000-01. In FY 2003-04, permanent casinos are assumed to be in operation for the entire fiscal year and produce adjusted gross gaming revenues of \$1.4 billion. This projected level of adjusted gross gaming revenues will generate an estimated \$113.6 million in total State gaming tax revenue. After adjusting for the estimated lottery reduction, the net increase in SAF revenue will total an estimated \$90.1 million in FY 2003-04.

Table 1

Estimated Fiscal Impact of Temporary and Permanent Casinos for FY 1998-99, FY 1999-2000, FY 2000-01 and FY 2003-04 (millions of dollars)				
	Temporary Casinos			Permanent Casinos
	Final FY 1998-99	May¹ Consensus FY 1999- 2000	May¹ Consensus FY 2000-01	SFA Estimate FY 2003-04
Adjusted Gross Gaming Revenue Estimate	\$74.0	\$617.4	\$963.0	\$1,403.0
Casinos - 18% Gross Gaming Tax	13.3	111.1	173.3	252.5
8.1% State Wagering Tax	6.0	50.0	78.0	113.6
9.9% Detroit Gaming Excise Tax	7.3	61.1	95.3	138.9
State Wagering Tax Revenue	6.0	50.0	78.0	113.6
Lost School Aid Fund Lottery Revenue	(0.6)	(11.0)	(16.2)	(23.6)
Net Change School Aid Fund	5.4	39.0	61.7	90.1

Source: Senate Fiscal Agency.

In addition to the State wagering tax, which is deposited into the School Aid Fund, fees and assessments are levied on the casinos to cover State and local costs incurred due to casino

¹The Consensus Revenue Estimating Conference was created by Public Act 72 of 1991. Under this law, the Directors of the Senate Fiscal Agency, House Fiscal Agency, and Department of Management and Budget (or their designees) must hold at least two revenue estimating conferences each year in January and May; however, any of the three conference participants may call a special consensus revenue estimating meeting at any time. Historically, the Department of Treasury has represented the Executive Branch as the designee of the Department of Management and Budget. The purpose of the conference is to produce a consensus General Fund/General Purpose (GF/GP) and School Aid Fund (SAF) revenue estimate that can be used by the Governor and the Legislature in preparing the State budget. The law requires that all three participants agree in order for a consensus to be reached.

operation. The development agreements between the City of Detroit and the casinos include the casino predevelopment and infrastructure costs. Also, the annual municipal services fee, which is equal to the greater of 1.25% of adjusted gross receipts or \$12.0 million (or \$4.0 million for each casino), is expected to cover the city's recurring costs to host the casinos.

STATE SERVICES FEE FUND

Section 12a of the MGCRA provides that all regulatory and enforcement costs, compulsive gaming programs and activities, casino-related legal services provided by the Attorney General, and casino-related expenses of the State Police must be paid from various background investigation and license fees and assessments collected from applicants and holders of casino, supplier, and occupational licenses, and from an annual State services fee assessment of \$8.3 million collected from each casino upon licensure and renewed each year. Assessments, application fees, and license fees paid by casinos are deposited into the State Services Fee Fund. During FY 1996-97 and FY 1997-98, when revenue in the Fund was not sufficient to cover expenses, the State General Fund made advances to cover the deficit. General Fund advances were to be repaid, with interest, at the end of FY 1999-2000. Table 2 provides a summary of the application and license fees charged to vendors and licensees that are deposited into the State Services Fee Fund.

Table 2

APPLICATION AND LICENSE FEES	
Fee	Amount
Casino License Nonrefundable Application Fee	\$50,000
Annual Casino License Fee	\$25,000
Supplier Nonrefundable Application Fee	\$500 - \$2,500
Supplier Annual License Fee	\$5,000
Occupational Nonrefundable Application Fee	\$50 - \$500
Occupational Biennial License Fee	\$50 - \$250

Source: Michigan Gaming Control Board, Administrative Rules Sections 432.1302, 432.1303

The major source of revenue to the State Services Fee Fund is an annual State service fee assessment paid by the Detroit casinos. The total annual State service fee assessment will be \$25.0 million when all three authorized Detroit casinos are licensed. A casino licensee is required to pay an equal share of the total annual assessment on or before the date the licensee begins operating, and annually thereafter; limited to one-third of the total annual assessment, or \$8.3 million. The Act provides for adjustments to the total annual assessment based on the Detroit Consumer Price Index. After a \$2.0 million annual allocation to the Compulsive Gaming Prevention Fund, the balance of total annual assessments is deposited in the State Services Fee Fund. Revenue in the State Services Fee Fund is limited to \$65.0 million. If collections would cause the balance to exceed \$65.0 million, the surplus is to be credited in equal shares against each casino licensee's annual assessment.

Table 3 provides a four-year history of revenue and expenditures from the State Services Fee Fund. Fiscal year 1999-2000 amounts are based on appropriations.

Table 3

MICHIGAN GAMING CONTROL AND REVENUE ACT OF 1996 (INITIATED LAW OF 1996) STATE SERVICES FEE FUND				
	FY 1996-97	FY 1997-98	FY 1998-99	FY 1999-2000 *
Revenue				
Annual Assessment	\$0	\$0	\$8,333,333	\$16,891,667
Application Fees		1,461,955	2,163,088	1,728,589
Casino License Fees		0	25,000	50,000
Occupational License Fees		0	0	11,350
Miscellaneous Revenue			1,158	8,708
Total Revenue:	\$0	\$1,461,955	\$10,522,579	\$18,690,314
Expenditures				
Dep. to Comp. Gaming Prev. Fund	\$0	\$0	\$666,667	\$1,333,333
MI Gaming Control Administration	416,548	3,789,758	3,604,249	7,865,265
MI Gaming Background Investigations	0	912,818	2,445,688	593,047
Department of Attorney General	224,807	459,955	513,575	321,338
Department of State Police	119,113	2,317,785	3,247,828	2,324,624
Total Expenditures:	\$760,468	\$7,480,316	\$9,811,340	\$12,437,607

*Revenues and expenditures from October 1, 1999 to August 31, 2000.

Source: Michigan Gaming Control Board.

COMPULSIVE GAMING PREVENTION FUND

The Compulsive Gaming Prevention Fund (CGPF) was created by the Compulsive Gaming Prevention Act, Public Act 70 of 1997. The CGPF is supported by contributions from the State Lottery (10% of the Lottery advertising budget or \$1,000,000, whichever is less), the Agriculture Equine Industry Development Fund (1/10 of 1% of gross wagers at licensed State parimutuel tracks, or approximately \$500,000), and each casino's share of the \$2.0 million set aside from annual casino assessments.

The CGPF is administered by the Department of Community Health. Programs and projects supported by the CGPF include a statutorily dedicated allocation of \$40,000 to the Council on Domestic Abuse, antigambling media messages, a gambling prevention and intervention helpline, and treatment services for persons with gambling addictions.

MICHIGAN GAMING CONTROL BOARD

The MGCRA authorized the creation of the Michigan Gaming Control Board (MGCB). Housed in the Department of Treasury, the MGCB is vested with the authority to license, regulate the three casinos, and implement the necessary administrative procedures to enforce properly the provisions of the Act.

The board consists of five members, including not more than three from the same political party. The members are appointed by the Governor with the advice and consent of the Senate for four-year terms. The Governor must designate one member of the board as its chairperson, and each member of the board must be a resident of Michigan. Under the Act, "any member of the board may be removed by the Governor for neglect of duty, misfeasance, malfeasance, nonfeasance, or any other just cause". The Governor also must appoint an Executive Director of the MGCB to a six-year term; the Director must perform all the duties that the board assigns.

The MGCB is authorized to delegate whichever of its powers it deems necessary to administer and enforce the provisions of the Act and the rules promulgated by the board. Delegated powers include background investigations performed by MGCB staff with the assistance of the Michigan State Police and requested legal assistance performed by the Attorney General. The FY 2000-01 appropriation for casino gaming is \$20,466,800, all funded from restricted revenue sources. This appropriation supports 92.0 MGCB full-time equated positions (FTEs) and provides funding in the form of interdepartmental transfers to the Michigan State Police and Attorney General for work performed on behalf of the MGCB. Prior to the opening of the MGM Grand Detroit Casino (the first of three to open in Detroit), the State made advances from the State General Fund to the board to cover administrative costs. The advances will be repaid by the State Services Fee Fund.

DEPARTMENT OF ATTORNEY GENERAL

The Department of Attorney General currently has 4.0 attorneys and 2.0 clerical positions assigned to its Casino Control Division, supported by an FY 2000-01 appropriation of \$799,800. The Division provides legal services to the MGCB and the State Police Gaming Section. The State Services Fee Fund also supports one-half of an attorney position in the Attorney General's Criminal Division to prosecute casino-related crimes.

The Casino Control Division assisted the Michigan Gaming Control Board in developing proposed amendments to the MGCRA. The Division also helped the board draft administrative rules to implement, administer, and enforce the amended Act. In addition, when the Michigan Gaming Control Board received casino license applications from the three developers selected by the City of Detroit, the Department of Attorney General provided legal assistance to investigative teams that conducted background investigations on applicants. The Department also represented the MGCB in a constitutional challenge to the casino selection process and helped the MGCB prepare for contested case licensing hearings.

Subsequent to licensing hearings for the three Detroit casinos, the Department of Attorney General will represent the MGCB in licensee compliance hearings and provide legal services related to casino, supplier, and occupational licensing.

DEPARTMENT OF STATE POLICE

The Michigan Department of State Police provides requested investigative and enforcement assistance to the MGCB for licensure, regulation, and law enforcement related to the three Detroit-based casinos. The Department established an investigative unit and an enforcement unit for this purpose. The total workforce currently dedicated to casino oversight consists of 42.0 FTEs (including 1.0 Inspector, 37.0 Detectives, 1.0 Computer Technician, and 3.0 Clerical positions), supported by an FY 2000-01 appropriation of \$5,309,600 from casino gaming fees.

The investigative unit performs background checks on owners and managers of the Detroit casinos and their suppliers. As casinos have become operational, the Department's need to perform background checks has been reduced. The investigation unit maintains a team to conduct ongoing background investigations in the licensing and relicensing of key persons, suppliers, and occupational licensees. The enforcement unit provides a law enforcement presence to assist board regulatory officers at each casino to ensure that provisions of the MGCRA, rules promulgated by the board, and casino internal controls are followed. The unit also initiates investigations of casino-related crimes, and makes arrests for other criminal activity. The unit currently operates as a single team that rotates between casinos and responds to calls for service from a location in Detroit's New Center area.

CONCLUSION

The preceding is an overview of the status of casino development in Detroit. The economic impact that Detroit casinos will have on the local economy and the State will change as all three casinos transform from temporary to permanent facilities. Actual net revenue increases to the State School Aid Fund, the State Services Fee Fund, and the City of Detroit will depend upon the viability of the casinos. This paper will be updated periodically to include information as it becomes available.